MOODY'S
INVESTORS SERVICE

Credit Opinion: NSTAR

Global Credit Research - 20 Sep 2010

Boston, Massachusetts, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A2
Sr Unsec Bank Credit Facility	A2
Senior Unsecured	A2
Commercial Paper	P-1
NSTAR Electric Company	
Outlook	Stable
Issuer Rating	A1
Sr Unsec Bank Credit Facility	A1
Senior Unsecured	A1
Preferred Stock	A3
Commercial Paper	P-1

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Key Indicators

[1]**NSTAR**

	LTM 2Q 10	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	4.4	5.1	5.1	3.7
(CFO Pre-W/C) / Debt	17%	20%	23%	15%
(CFO Pre-W/C - Dividends) / Debt	12%	16%	18%	10%
Debt / Book Capitalization	50%	52%	53%	53%

[1] All ratios calculated in accordance with the Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Two core utility subsidiaries with relatively low business and regulatory risk profiles

Robust credit metrics, of late, due to rate plan cost recovery

Capital spending returns closer to historic base levels

Sufficient liquidity

Corporate Profile

NSTAR is a holding company and parent for NSTAR Electric Company, which is a regulated electric transmission and distribution (T&D) utility and the largest subsidiary. NSTAR is also the parent for a local gas distribution (LDC) utility, NSTAR Gas Company, and some other small non-regulated subsidiaries, including telecommunications and liquefied natural gas service operations. NSTAR Electric and NSTAR Gas are regulated by the Massachusetts Department of Public Utilities (MDPU) and the Federal Energy Regulatory Commission (FERC).

SUMMARY RATING RATIONALE

NSTAR's A2 senior unsecured rating reflects its relatively low risk business model and the consistently supportive regulatory and legislative

environment in which its regulated subsidiaries operate. The rating also takes into account considerable improvement in key credit metrics over the past two years, as expected. We currently anticipate that NSTAR's consolidated key credit metrics can remain at the stronger levels during the remaining two years of the existing long term rate plan for its subsidiary, NSTAR Electric. Moreover, liquidity at NSTAR remains adequate for the rating level, with consolidated cash flow from operations (CFO) supplemented by ample unused capacity under committed multi-year bank credit facilities at NSTAR and NSTAR Electric, and a 364-day facility at NSTAR Gas.

DETAILED RATING CONSIDERATIONS

RELATIVELY LOW BUSINESS RISK MODEL SUPPORTS SOUND CREDIT QUALITY

NSTAR's low business risk profile reflects management's past decisions to divest NSTAR Electric's generation assets and buy out or restructure certain above market priced power purchase contracts over several years following passage of industry restructuring legislation in Massachusetts in 1998. The legislation gave retail customers the option to choose an alternative electric energy supplier or to continue receiving electric energy from NSTAR Electric, which continues to have electric provider of last resort (POLR) responsibilities. As a result, virtually all of NSTAR's revenue and cash flow is more stable and predictable because they are produced by providing regulated electric T&D and natural gas LDC services.

More recently, NSTAR completed the sale of its wholly-owned subsidiary, Medical Area Total Energy Plant (MATEP), which further reduced its unregulated exposure and supports the parent company's low business risk profile. The sale of MATEP to a joint venture, including Neolia Energy North America (majority owner) and Morgan Stanley Infrastructure Partners, provided NSTAR with about $344 million, resulting in a gain of nearly $110 million. The net after-tax proceeds of the sale were used to retire MATEP debt of $85.5 million and the remainder will be used to repurchase NSTAR's common stock.

Moody's views the sale of MATEP as a net credit positive event for NSTAR, even in the midst of ongoing share repurchases.

CONSTRUCTIVE LEGISLATION AND REGULATION IN MASSACHUSETTS

In tandem with NSTAR's low business risk profile, we place significant emphasis on the degree of support provided by the MDPU and FERC. The industry restructuring legislation and a series of regulatory agreements have been providing ample opportunity for NSTAR Electric to recover all stranded costs stemming from prior investments in generation assets and power purchase agreements (PPAs). Under the legislation, stranded cost securitization financing was an option if the utility sold its generation assets and/or bought out PPAs. NSTAR Electric took advantage of this financing option, thus accelerating the cash recovery of stranded costs and providing funds to reduce recourse debt.

Several other aspects of regulation in Massachusetts are also supportive of the credit quality for NSTAR, including the means to recover POLR supply costs, the energy portion of bad debt costs, natural gas supply costs, pension plan expenses, and the goodwill associated with the 1999 merger between BEC Energy and Commonwealth Energy System to form NSTAR. More recently, the MDPU granted the utilities an opportunity to propose decoupling plans as part of their next general rate case. Decoupling of revenues from customer usage assumed as a basis for setting rates is an approach that would enable NSTAR's utilities to mitigate the earnings and cash flow pressures that would otherwise result from weather induced customer conservation and or efficiency and load reduction programs. We understand that NSTAR Electric will await conclusion of its current rate plan before pursuing this opportunity, while NSTAR Gas may seek such a mechanism sooner.

NSTAR Electric's seven-year rate plan (in place since December 2005) is also generally supportive of NSTAR's consolidated credit quality because it provides some predictability for future rates and revenue streams. In the earlier years of the rate plan, there have been some temporary reductions in cash flows due to the deferral of certain transition costs; however, we expect the MDPU will stand behind the terms of the plan that call for full recovery of these amounts with a carrying cost at 10.88%. Any unexpected shift in the regulatory approach to this issue as NSTAR Electric enters the period of cash recovery of these deferrals over the remaining term of the rate plan would be cause for credit concern.

Meanwhile, the FERC has established rates that provide NSTAR Electric a good opportunity to earn attractive returns on its recently completed transmission investments.

IMPROVED CREDIT METRICS ARE MORE IN LINE WITH THE A2 RATING

From a historical perspective, the weakness evident in NSTAR's FY '06 and FY '07 CFO Pre-W/C to interest and debt coverage ratios was caused in part by the cost deferrals under NSTAR Electric's long term rate plan; however, our concerns about the weakness in the metrics relative to the A2 rating were tempered somewhat by the expectation that the recovery of those deferrals would lead to a robust cash recovery in the future and stronger credit metrics, as well as the company's favorable business risk profile and the supportive regulatory/legislative environment in Massachusetts.

As anticipated, NSTAR's CFO Pre-W/C to interest and debt coverage ratios have experienced an abrupt increase from the FY '06 and FY '07 levels of about 3.7x and 15.5%, respectively, as the '08 and '09 fiscal years have produced average metrics of 5.1x for CFO Pre-W/C to interest and 21.5% CFO Pre-W/C to debt. The marked improvement in metrics is due to cash recovery of regulatory deferrals under the NSTAR Electric multi-year rate plan and increased returns on transmission investments. For the 12-months ended June 30, 2010 these metrics continued to outpace the '06 and '07 levels at 4.4x and 17%. Our prospective view for NSTAR's ratings assumes that CFO will continue to benefit from cash recovery of regulatory deferrals under the NSTAR Electric multi-year rate plan along with increased returns on its recent transmission investments. Specifically, we anticipate that NSTAR can achieve consolidated cash flow from operations, on average, in excess of $600 million annually over the next couple of years, which should produce CFO Pre-W/C to interest and debt coverage ratios in the range of 4.5x - 5.0x and 20% to 23%, respectively. Achieving these levels would be typical for a utility holding company at the A2 rating level, especially bearing in mind the utilities' low business risk profiles and the supportive Massachusetts regulatory environment. Moreover, we emphasize that these metrics could be considered to be at stressed levels since they include the full amount of non-recourse securitized debt in order to be consistent with analysis of comparable companies, as described in the Regulated Electric and Gas Utilities Rating Methodology published in August.

CAPITAL SPENDING RETURNS TO INTERNALLY SUPPORTABLE LEVELS

On a reported basis, NSTAR was Free Cash Flow (FCF) negative from 2005-2008, but since we expect the company to be scaling down its capex (which could show even more discretion if there are poor economic or market conditions), we anticipate the company to be FCF positive over the intermediate-term.

NSTAR concluded a rather robust capital plan in 2009, that included three transmission lines as part of a 345 kv project, which saw capex levels rise over $400 million in 2006 and 2008. The company now turns its attention to two other significant projects. One is a transmission project that involves Northeast Utilities (NU) and Hydro-Quebec (HQ), which will bring 1,200 MWs of capacity into New England, and the other is a 22-mile 345 kv transmission line that will cross the Cape Cod canal. NSTAR is still working on the transmission services agreement with NU and HQ, and is finalizing a licensing issue for an energy facilities siting board regarding the Cape Cod canal project.

NSTAR's total costs for the two projects are $225 million for the NU/HQ project (expected to be in-service by 2015) and $110 - $120 million for the Cape Cod project (expected to be in-service by 2012). For all of 2010, the company expects to spend about $370 million; $100 million of which is transmission related, $50 million for the gas business and the balance on electric distribution. For 2011, we anticipate NSTAR's consolidated capex will be somewhere around $325 million. The substantial portion of the 2011 capex will be at NSTAR Electric, which we expect to be funded with internally generated cash flow.

Liquidity

NSTAR's operating subsidiaries are the primary source of its cash flow in the form of dividends, with NSTAR Electric contributing the largest percentage by far. Moody's expects that NSTAR will continue to maintain sufficient liquidity, as the quarterly dividends from operating subsidiaries, coupled with external liquidity provided by NSTAR's $175 million commercial paper program (Prime-1 short-term rating), should continue to provide ample funds to cover standalone interest, tax payments, corporate overhead, and the common dividend. Given its Prime-1 CP rating, NSTAR has been able to consistently access the commercial paper market even during tight credit conditions. In addition to NSTAR's $175 million multi-year, syndicated committed bank revolver, which expires in December 2012 and backstops the commercial paper program, NSTAR Electric has its own $450 million committed five year revolver due December 2012, while NSTAR Gas has its own $100 million 364-day line of credit, expiring in December 2010. Though NSTAR Gas anticipates that this facility will be renewed, Moody's does not give NSTAR's consolidated liquidity profile credit for a facility that comes due within the next twelve months of its sources and uses analysis. The agreements do not contain any rating triggers that would set off default, acceleration or puts, but rating sensitive pricing applies. The facilities are not burdened by an ongoing material adverse change clause and have just one financial covenant (maximum debt of 65% as defined). At June 30, 2010, the compliance calculation showed debt to capital at 57.5%, leaving ample headroom under the financial covenant.

NSTAR's daily average commercial paper balance during the 12-months ended June 30, 2010 was about $120 million (the peak of $175 million was outstanding on several days, primarily due to line being used as inter-company loans to NSTAR Gas). There was $47.5 million of commercial paper outstanding at the end of Q-2 2010 and we note that NSTAR Electric reported about $55 million as the current portion of long-term debt at June 30, 2010, $54 million of which was related to non-recourse transition property securitization debt serviced by legislatively mandated billing to customers. In fact, NSTAR has no material maturities until NSTAR Electric's $400 million of debentures come due in October 2012. The parent company's only material standalone maturity isn't until 2019.

Rating Outlook

NSTAR's stable rating outlook primarily reflects the adequate credit profiles of its utility subsidiaries, which benefit from supportive regulatory practices in Massachusetts, as well as the improved consolidated credit metrics in 2008 and 2009 that are in line with the A2 rating. The outlook also anticipates that these key metrics can be maintained during the remaining two years of NSTAR Electric's long-term rate plan. Moreover, it assumes that management will maintain its conservative strategy related to non-regulated investments and that there will not be any new additional long-term debt issuance at the parent level.

What Could Change the Rating - Up

Based on the stable outlook, we do not expect an upgrade of NSTAR's rating in the near term. Longer term, if NSTAR produces CFO Pre-W/C to interest and debt comfortably above 5x and 25%, respectively, on a sustainable basis, and there is a substantial reduction in the overall consolidated debt level, then we might consider an upgrade.

What Could Change the Rating - Down

NSTAR's ratings could be downgraded if there is a prolonged decline in financial metrics below expected levels noted above due to shortfalls in fundamental performance by the operating subsidiaries and/or an unexpected change in NSTAR's conservative philosophy with respect to non-regulated investments. More specifically, NSTAR's ratings could be pressured if CFO Pre-W/C to interest and debt fall to levels around 4.2x and 20%, respectively, for an extended period. This would be especially more likely if there is a corresponding negative shift in the consolidated business and legislative/regulatory risk profiles.

Rating Factors

NSTAR

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (5%)				X		
b) Generation and Fuel Diversity (5%)			NA			
Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)						
a) Liquidity (10%)			X			
b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg)			X			
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		

d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)				X		
Rating:						
a) Methodology Implied Senior Unsecured Rating			**A3**			
b) Actual Senior Unsecured Rating			**A2**			

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Category	Moody's Rating
Outlook	Stable
Issuer Rating	A1
Sr Unsec Bank Credit Facility	A1
Senior Unsecured	A1
Preferred Stock	A3
Commercial Paper	P-1
Parent: NSTAR	
Outlook	Stable
Issuer Rating	A2
Sr Unsec Bank Credit Facility	A2
Senior Unsecured	A2
Commercial Paper	P-1

Contacts

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Key Indicators

[1]**NSTAR Electric Company**

	LTM 2Q 10	2009	2008	2007
(CFO Pre-W/C + Interest) / Interest Expense	5.7	6.1	4.7	4.6
(CFO Pre-W/C) / Debt	22%	26%	20%	17%
(CFO Pre-W/C - Dividends) / Debt	14%	20%	18%	8%
Debt / Book Capitalization	44%	43%	46%	44%

[1] All ratios calculated in accordance with the Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Relatively low business and regulatory risk profiles

Improved credit metrics more in line with A1 rating level

Reduced capex will now be more in-line with historical base spending levels

Sufficient liquidity

Corporate Profile

NSTAR Electric Company is a regulated electric transmission and distribution utility company and the largest subsidiary of NSTAR, which is also the parent company for a local gas distribution utility, NSTAR Gas Company, and other small non-regulated subsidiaries. NSTAR Electric is regulated by the Massachusetts Department of Public Utilities (MDPU) and the Federal Energy Regulatory Commission (FERC).

SUMMARY RATING RATIONALE

NSTAR Electric's A1 senior unsecured debt rating reflects its relatively low business risk model and the supportive legislative and regulatory environment in which it operates. The rating also takes into account considerable improvement in key credit metrics since 2008 to solidify the

company's standing within its A1 rating level. We currently anticipate that NSTAR Electric's key credit metrics can remain at the stronger levels during the remaining years of the existing long term rate plan and its liquidity should remain sufficient as cash flow from operations is expected to be supplemented by continued access to the commercial paper market and committed bank credit facility.

DETAILED RATING CONSIDERATIONS

RELATIVELY LOW BUSINESS RISK MODEL SUPPORTS SOUND CREDIT QUALITY

NSTAR Electric's low business risk profile reflects management's past decisions to divest generation assets and buy out or restructure certain above market priced power purchase contracts over several years following passage of industry restructuring legislation in Massachusetts in 1998. The legislation gave retail customers the option to choose an alternative electric energy supplier or to continue receiving electric energy from NSTAR Electric, which continues to have electric provider of last resort (POLR) responsibilities. As a result, virtually all of NSTAR Electric's revenue and cash flow is more stable and predictable because they are produced by providing regulated electric transmission and distribution (T&D) services.

CONSTRUCTIVE LEGISLATION AND REGULATION IN MASSACHUSETTS

In tandem with NSTAR Electric's low business risk profile, we place significant emphasis on the degree of support provided by the MDPU and FERC. The industry restructuring legislation and a series of regulatory agreements have been providing ample opportunity for NSTAR Electric to recover all stranded costs stemming from prior investments in generation assets and power purchase agreements (PPAs). Under that legislation, stranded cost securitization financing was an option if the utility sold its generation assets and/or bought out PPAs and NSTAR Electric took advantage of this financing option, thus accelerating the cash recovery of stranded costs and providing funds to reduce recourse debt.

Several other aspects of regulation in Massachusetts are also supportive of the credit quality for NSTAR Electric, including the means to recover POLR supply costs, the energy portion of bad debt costs, pension plan expenses, and the goodwill associated with the 1999 merger between BEC Energy and Commonwealth Energy System to form NSTAR. More recently, the MDPU granted the utilities an opportunity to propose decoupling plans as part of their next general rate case. Decoupling of revenues from customer usage assumed as a basis for setting rates is an approach that should enable utilities to mitigate the earnings and cash flow pressures that would otherwise result from weather induced customer conservation and or efficiency and load reduction programs. We understand that NSTAR will await conclusion of its current rate plan at the end of 2012 before pursuing this opportunity.

NSTAR Electric's seven-year rate plan (in place since December 2005) is also generally supportive of credit quality because it provides some predictability for future rates and revenue streams. In the earlier years of the rate plan, there were some temporary reductions in cash flows due to the deferral of certain transition costs; however, we remain confident that the MDPU will continue to stand behind the terms of the plan that calls for full recovery of those amounts with a carrying cost calculated at 10.88%. Any unexpected shift in the regulatory approach to this issue as NSTAR Electric benefits from ongoing cash recovery of those deferrals over the remaining term of the rate plan would be cause for credit concern.

Meanwhile, the FERC has established rates that provide NSTAR Electric a good opportunity to earn attractive returns on its recently completed transmission investments.

IMPROVED CREDIT METRICS ARE MORE IN LINE WITH A1 RATING

From a historical perspective, the weakness evident in NSTAR Electric's FY '06 and FY '07 CFO Pre-W/C to interest and debt coverage ratios was caused in part by the cost deferrals under the current long term rate plan; however, our concerns about weakness in the metrics relative to the A1 rating during this period were tempered somewhat by the company's favorable business risk profile and the supportive regulatory/legislative environment in Massachusetts. In FY 2008, NSTAR Electric's credit metrics began to strengthen considerably and this trend continued for FY '09 as CFO Pre-W/C to interest and debt coverage ratios were about 6.1x and 26%, respectively, largely reflecting improvement due to cash recovery of regulatory deferrals under the multi-year rate plan and increased returns on transmission investments. For the 12 months ended June 30, 2010, these metrics continued at solid levels of 5.7x and 22%, respectively.

Our prospective view for NSTAR Electric's ratings assumes that CFO will continue to benefit from the cash recovery of regulatory deferrals under the multi-year rate plan along with the increased returns on recent transmission investments. Specifically, we anticipate that NSTAR Electric can achieve cash flow from operations near $600 million annually over the next couple of years, which should allow CFO Pre-W/C to interest and debt to be maintained in the mid-to high 5x level and the 25% to 30% range, respectively. Maintaining these levels would be in line with a T&D utility at the A1 rating level, especially bearing in mind NSTAR Electric's low business risk profile and the support provided to NSTAR Electric by the MDPU and FERC. Moreover, we emphasize that these metrics could be considered to be at somewhat stressed levels since they include the full amount of non-recourse securitized debt in order to be consistent with our analysis of comparable companies, as described in the Regulated Electric and Gas Utilities Rating Methodology published in August 2009.

RETURN TO MORE TYPICAL BASE LEVEL OF CAPEX OVER THE INTERMEDIATE-TERM

NSTAR Electric concluded a rather robust capital plan in 2009, that included three transmission lines as part of a 345 kv project, which saw capex levels rise to well in excess of $300 million in 2006 and 2008. The company now turns its attention to a 22-mile 345 kv transmission line that will cross the Cape Cod canal. NSTAR Electric is finalizing a licensing issue for an energy facilities siting board, regarding the Cape Cod canal project - a project that is expected to cost $110 - $120 million and be in-service by 2012.

For all of 2010, the company expects to spend about $317 million and we anticipate that NSTAR Electric will spend nearly $282 million in 2011, which will be largely funded with internally generated cash flow.

Liquidity

NSTAR Electric consistently maintains sufficient internal and external sources of liquidity, including continued access to the commercial paper market given its P-1 commercial paper rating, which supplements internally generated cash flow and should help meet its short term cash needs over the next four quarters. NSTAR Electric also represents the principal source of cash for NSTAR to meet its standalone fixed obligations, unallocated administrative costs, and common dividend.

For the 12-months ended June 30, 2010, NSTAR Electric's short-term debt averaged $280 million (the peak was $441.5 million in February 2010 to fund normal working capital requirements) and the company reported $343 million of commercial paper outstanding as of June 30, 2010. There was $9.1 million of unrestricted cash at the end of Q-2 2010, consistent with the practice of keeping a relatively modest amount of cash on hand. At the same time, roughly $55 million was reported as the current portion of long-term debt, about $54 million of which was related to non-recourse transition property securitization debt serviced by legislatively mandated billing to customers. The company has no material debt maturities until October 2012 when $400 million of debentures are due.

NSTAR Electric has a $450 million committed 5-year revolving credit agreement, expiring on December 31, 2012, which backstops the $450 million commercial paper program. The agreement includes an annual 364-day extension option at the discretion of the lending banks. Although NSTAR Electric has no plans to draw under the back-up facility, it would expire 364-days from the date of the first draw, unless a long-term financing approval from the MDPU allows otherwise.

The bank agreement is not burdened by any ongoing material adverse change clause and has just one financial covenant (65% maximum debt ratio as defined). The covenant compliance calculation was 49% at June 30, 2010 leaving substantial headroom. Moreover, there are no rating triggers that could set off default, acceleration or puts, but rating sensitive pricing applies.

Rating Outlook

NSTAR Electric's rating outlook is stable, as we expect credit metrics will continue to benefit from cash recovery of deferral items over the remaining years of the existing long term rate plan, thereby positioning the utility well in its rating category.

What Could Change the Rating - Up

An upgrade is unlikely in the near term against the backdrop of a stable outlook. Longer term, if qualitative factors remain equal and NSTAR Electric can sustainably produce CFO Pre-W/C to interest and debt above 6.0x and 30%, respectively, then Moody's would consider a higher rating.

What Could Change the Rating - Down

Shortfalls in NSTAR Electric's financial performance and/or an unexpected change in NSTAR's conservative strategy with respect to non-regulated investments could bring negative ratings pressure. In particular, if, on average, CFO Pre-W/C to interest and debt were to fall below 4.8x and 23%, respectively, on an annual basis and for an extended period of time, then a downgrade could occur. Any material negative shift in the regulatory risk profile of the company would also be negative to the rating.

Rating Factors

NSTAR Electric Company

Regulated Electric and Gas Utilities	Aaa	Aa	A	Baa	Ba	B
Factor 1: Regulatory Framework (25%)				X		
Factor 2: Ability to Recover Costs and Earn Returns (25%)			X			
Factor 3: Diversification (10%)						
a) Market Position (10%)				X		
b) Generation and Fuel Diversity (0%)				na		
Factor 4: Financial Strength, Liquidity and Key Financial Metrics (40%)						
a) Liquidity (10%)			X			
b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg)			X			
c) CFO pre-WC / Debt (7.5%) (3yr Avg)				X		
d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg)				X		
e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg)			X			
Rating:						
a) Methodology Implied Senior Unsecured Rating				**A3**		
b) Actual Senior Unsecured Rating				**A1**		

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